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INTRODUCTION

The Office of Internal Audit performed an audit of Inkster District, Wayne County FIA for the period October 1, 1998 through November 12, 1999. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Inkster District had 102 full time equated positions (FTE's) at the time of our review. Inkster District provided assistance to an average 17,019 recipients per month during FY 1998, with total assistance payments of \$28,722,633 during that year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the Inkster District documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursements
Accounts Receivable	General Ledger
Safe and Controlled Documents	Medical Transportation
State Emergency Relief (SER)	Client Processing
CIS/ASSIST	Telephone Usage
IRS Information Security	Payroll and Timekeeping
Procurement Card	

EXECUTIVE SUMMARY

Based on our audit, we concluded that the Inkster District internal controls were not adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found numerous instances of noncompliance with FIA policies and procedures, many of which affect the office's internal control structure. We also noted specific internal control weaknesses.

We returned to the Inkster District Office on January 13, 2000, and performed a follow-up review. Based on that review, we concluded that corrective action had been implemented for all items.

DISTRICT OFFICE RESPONSE

The management of the Inkster District has reviewed all findings and recommendations in this report. They agreed with the report and implemented corrective action for all items, which we verified during our follow-up review on January 13, 2000.

FINDINGS AND RECOMMENDATIONS

Cash Receipts

Open Items on FIA-61

1. Inkster District did not always record disposition information on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 460. We found six open items on the FIA-61, where the checks/warrants were not on hand and the district had not recorded the disposition. Recording the disposition on the FIA-61 provides documentation that returned checks/warrants were disposed of properly.

WE RECOMMEND that Inkster District record the disposition of all checks/warrants on the FIA-61.

WE ALSO RECOMMEND that Inkster District determine the disposition of the six open items on the FIA-61, and take the appropriate corrective action.

FIA-61 Log Reconciliation

2. The Inkster District did not perform a weekly reconciliation of checks/warrants on hand to the open items on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 460. A weekly reconciliation is necessary for timely detection of any warrants/checks that are lost or stolen, and to ensure that all checks/warrants on hand are properly recorded on the FIA-61. We also noted that the posting of disposition information to the FIA-61 was not up-to-date. Keeping the posting up to date facilitates the reconciliation process.

WE RECOMMEND that the Inkster District perform a weekly reconciliation of checks/warrants on hand to the FIA-61, and keep posting of disposition information on the FIA-61 up-to-date.

Daily Mail Record of Cash Receipts

3. The Inkster District did not use the Daily Mail Record of Cash Receipts (FIA-4729) for all negotiable received for deposit. Instead the district used the Record and Disposition of Checks/Warrants (FIA-61) to record all negotiables received in the mail. Accounting Manual Item 431 states that a FIA-4729 is to be used to record negotiables received for deposit.

WE RECOMMEND that the Inkster District record all negotiables received for deposit on the FIA-4729.

Frequency of Deposits

4. Inkster District did not make bank deposits weekly, as required by Accounting Manual Item 430. Rather, the district was making deposits once a month. Depositing the receipts weekly increases interest earned and helps to prevent funds from being misplaced or stolen while on hand in the local office.

WE RECOMMEND that Inkster District deposit its cash receipts at least once each week.

Security of Returned Treasury Warrants

5. Inkster District did not properly secure Treasury warrants which were returned to the local office. We found that during the day these warrants were left in an unlocked file bag on a desk in the fiscal office. Accounting Manual Item 460 requires that returned Treasury warrants be kept in a locked strong box or cabinet with limited access during business hours. Restricting access to these warrants helps to prevent loss or theft of the warrants.

WE RECOMMEND that Inkster District keep returned Treasury warrants in a locked strong box or cabinet during business hours.

FIA-138 and FIA-2362 Found Missing

6. The Inkster District was maintaining two separate files for completed (action has been taken) FIA-138's (Action taken on State Treasurer's Warrants by Local Office) and FIA-2362's (Service Warrants Rewrite/Disposition Request) in alphabetical order. We found that seven out of 36 FIA-138's and three out of 17 FIA-2362's were missing in the permanent file. Accounting Manual Item 462 requires that these files be complete in order to provide an audit trail to the FIA-61. The completed FIA-138's, FIA-2362 and FIA-61s must be retained in this file for a period of three years.

WE RECOMMEND that Inkster District keep all the completed FIA-138's, FIA-2362 and FIA-61s for a period of three years.

Cash Disbursements

Separation of Duties - Disbursements

7. Inkster District did not properly separate the cash disbursement duties. Our review disclosed that the same employee prepared and signed the checks, prepared the Sign-O-Meter Record (FIA-4711), and performed the bank reconciliation. Accounting Manual

Item 410 states that for internal control purposes, the person responsible for signing the checks should be an employee independent of the cash disbursement function. Accounting Manual Item 410.1 states that the FIA-4711 should be prepared by someone independent of the automated disbursement function. Accounting Manual Item 405 states that the person reconciling the disbursing account should not be responsible for check writing.

WE RECOMMEND that Inkster District have an employee independent of the check preparation process operate the check signing machine, perform the bank reconciliation, and prepare the FIA-4711.

Sign-O-Meter Record

8. Inkster District did not reconcile the Sign-O-Meter Record (FIA-4711), as required by Accounting Manual Item 410.1. Use of the Sign-O-Meter and reconciliation process helps to ensure that all checks that go through the check signer are accounted for in the accounting records.

WE RECOMMEND that Inkster District use the Sign-O-Meter record and reconcile it to the Check Register each month.

Accounts Receivable

Accounts Receivable Reconciliation

9. Inkster District County did not reconcile accounts receivable balances with the General Ledger totals for account 054.1, Potential Accounts Receivable Client/ Vendor-GA Non-SSI, or account 054.2 Potential Accounts Receivable ENP Client/Vendor, as required by Accounting Manual Item 481.5. Reconciling the account balances to the General Ledger balances helps to ensure that all transactions that occurred during the month were accurately posted.

WE RECOMMEND that Inkster District reconcile the accounts receivable balances with the general ledger totals each month.

Separation of Duties - Accounts Receivable

10. Inkster District was not properly separating duties in the accounts receivable function. One clerk was responsible for the entire accounts receivable function, and there was no independent review of the work. Accounting Manual Item 480 requires that the duties of collecting, posting, and reconciling accounts receivable be separated, or that the accounts receivable function be reviewed by an independent supervisor who is not involved in this function. Separating accounts receivable duties or having an independent review of the work helps to ensure the accuracy of the accounts receivable.

WE RECOMMEND that Inkster District either separate the accounts receivable duties or have an independent supervisor perform a review of the process.

Follow-up on Potential Accounts Receivable

11. Inkster District did not do periodic follow-up with landlords and clients to determine if the client had moved or received an asset, as required by Accounting Manual Item 480. Periodic follow-up helps to identify cases where an amount is due to the State.

WE RECOMMEND that Inkster District periodically follow-up on its potential accounts receivable to determine if amounts are owing to the State.

Collection Letters/Income Tax Stops

12. Inkster District FIA had no documentation that collection letters had been sent or that uncollectible accounts had been submitted to the Department of Treasury for Income Tax stops for Accounts Receivable which had been written off. Accounting Manual Item 481.2 requires that collection letters be sent and that uncollectible accounts be referred to the Department of Treasury for Income Tax stops. Sending collection letters and referring uncollectible accounts to the Department of Treasury helps to ensure that FIA collects the maximum amount possible on its account receivable.

WE RECOMMEND that Inkster District send collection letters on accounts receivable and refer uncollectible accounts to the Department of Treasury.

General Ledger

No findings

Safe and Controlled Documents

Controlled Document Log

13. Inkster District did not properly control blank documents. We noted that the district did not have the Controlled Document Log (FIA-4070) up-to-date for Official Cashier's Receipts (FIA-3681) or for bus tickets, as required by Accounting Manual Item 403. The last entry made on the FIA-4070 for Official Cashier's Receipts was 10/13/99, and for bus tickets was May, 1999. The physical inventory of bus tickets did not reconcile to the perpetual inventory records at the time of our audit. Keeping the Controlled Document Log up-to-date helps to ensure that loss, theft, or misuse of controlled documents would be detected on a timely basis.

WE RECOMMEND that Inkster District keep the Controlled Document Log up-to-date for Official Cashier's Receipts and bus tickets.

Controlled Document Reconciliation-Preparer's Supervisor Signature

14. The Inkster District did not have the preparer's supervisor sign the Monthly Controlled Document Inventory and Reconciliation (FIA-4351), as required by Accounting Manual Item 403. Having the preparer's supervisor sign the FIA-4351 provides documentation that the supervisor reviewed the reconciliation to ensure its accuracy.

WE RECOMMEND that the Inkster District have the preparer's supervisor sign the FIA-4351.

Controlled Document Reconciliation

15. The Inkster District did not have up-to-date Monthly Controlled Document Inventory and Reconciliations (FIA-4351) for all controlled documents, as required by Accounting Manual Item 403. The FIA-4351's for Food Stamps Participation Cards (FIA-672), Official Cashier's Receipts (FIA-3681), and Purchase Orders (FIA-2083) were last prepared in May, 1999. The FIA-4351 for MOST bus tickets was last completed in June, 1999. Completion of the Monthly Controlled Document Inventory and Reconciliation helps to ensure that loss, theft, or misuse of controlled documents would be detected on a timely basis.

WE RECOMMEND that the Inkster District prepare the Monthly Controlled Document Inventory and Reconciliation for all controlled documents on a timely basis.

Medical Transportation

No findings.

State Emergency Relief

ES-440 Report Reconciliation – FIA-93's

16. The Inkster District did not reconcile the Medical Services Authorization/Invoices (FIA-93) or the Authorization/Invoices (FIA-849) to the Issuance Report (ES-440) each month, as required by Accounting Manual Item 404. Reconciliation of the ES-440 Report helps to ensure that all payments made from FIA-93's and FIA-849's are accurate and appropriate.

WE RECOMMEND that the Inkster District reconcile the ES-440 Report to the FIA-93's and FIA-849's each month.

Client Processing

Findings verbally discussed regarding home calls and incomplete information on record.

CIS/ASSIST

MA-010 Reconciliation - Openings and Reopening

17. Inkster District did not reconcile all new case openings and reopenings listed on the MA-010 Report to the casefile documentation, as recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. A 100% reconciliation of openings and reopenings provides assurance that only their assigned workers opened cases.

WE RECOMMEND that Inkster district reconcile all case openings and reopenings on the MA-010 Report to the appropriate documentation in the case file.

CIS Security Agreements

18. Inkster District did not have accurate, up-to-date CIS Security Agreements (FIA-3974A) on file for 6 employees who access the Client Information System (CIS), as required by L-Letter 97-063. Accurate, up-to-date FIA-3974A's are necessary to document that each employee who accesses CIS understands, and is willing to comply with, the security requirements associated with his/her level of access.

WE RECOMMEND that Inkster District ensure that accurate, up-to-date security agreements are on file for all employees who access CIS.

Security Officers Log Report (PD-180)

19. Inkster District County FIA did not reconcile the Security Officers Log Report (PD-180) to the Security Agreements (FIA-3974A's). L-Letter L-97-063 requires the reconciler to review this report to a signed Security Agreement to ensure that all changes are accurate. In addition, the person responsible for reconciling the PD-180 log should maintain the CIS Security Agreements. For internal control purposes, the reconciler must not be the CIS Security Coordinator, and must be someone without file maintenance capability on CIS.

WE RECOMMEND that Inkster District have an independent person reconcile the PD-180 reports to the Security Agreements.

CIS/ASSIST Status Codes

20. All fiscal clerks at Inkster District ad FLM status on CIS. The combination of fiscal clerk and FLM status would allow the fiscal clerk to make changes to client cases and then process payments to those cases. In addition, the Family Independence Managers (FIM) had FLM status on CIS and job types 270 and 360 on ASSIST. This would allow FIM's to make changes to client cases with no independent review of the transactions.

WE RECOMMEND that Inkster District change the fiscal clerk's status codes from FLM to INQ inquiry only status on CIS, and remove job type code 360 on ASSIST from all fiscal clerks

WE ALSO RECOMMEND that Inkster District either change FIM's to INQ status on CIS and remove Job Types 270 and 360 on ASSIST from them, or have an independent person review all transactions processed by Family Independence Managers.

IRS Information Security

Designated Staff Person

21. Inkster District did not have a Designated Staff Person (DSP) for handling confidential information received from the Internal Revenue Service (IRS), as required by Program Administrative Manual (PAM) Item 800. A DSP is necessary to ensure that information received from the IRS is kept confidential. Breach of confidentiality could result in the department being denied access to IRS information.

WE RECOMMEND that Inkster District appoint a Designated Staff Person to handle confidential information received from the IRS.

IRS Data Control Sheet

22. The Inkster District did not use the Internal Revenue Service (IRS) Data Control Sheet (FIA-4488) to record Unearned Income Notices (FIA-4487A) received at the District, as

required by PAM Item 800. Completion of the FIA-4488 is necessary to document that the District is maintaining the confidentiality of information received from the IRS.

WE RECOMMEND that the Inkster District record all FIA-4487A's received on the FIA-4488.

Knowledge of IRS Security Procedures

23. Mailroom staff, Family Independence Specialists (FIS), and Eligibility Specialists (ES) at Inkster District were unaware of the proper procedures to follow for confidential information received from the IRS. Program Administrative Manual (PAM) Item 803 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Staff understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that Inkster District FIA familiarize staff with all aspects of the confidentiality laws for information received from the IRS.

Backup Designated Staff Person

24. Inkster District FIA did not have a backup Designated Staff Person (DSP) for IRS Security. The local office should have a backup DSP in case information is received on a day when the DSP is out of the office.

WE RECOMMEND that Inkster District County FIA appoint a backup DSP for IRS information security.

Payroll and Timekeeping

Payroll Record and Retention

25. The Inkster District timekeeper maintained the certified copy of the Time and Attendance Summary Report (HR-332A). The Primary Internal Control Criteria for Local/District

Office Operations recommends that someone other than the timekeeper retain the HR-332A so that changes made after the certifier signs the HR-332A could be detected.

WE RECOMMEND that Inkster District have the certifier or someone other than the timekeeper retain the HR-332A.

Procurement Card

No findings in this area.

Telephone Usage

Call to Chicago

26. On September 17, 1999 a call was made from the Inkster Office to Chicago. The call lasted 90.2 minutes, at a cost of \$27.42. The Inkster District has no documentation on file that this was a legitimate business call, or that the employee who made the call reimbursed FIA for the call.

WE RECOMMEND that Inkster District monitor telephone charges to ensure that they are for FIA business, and require employees to reimburse FIA for those calls that are not.